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THE UNIFORM GRAIN PRICE IN THE EUROPEAN ECONOMIC COMMUNITY

by

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> "Member States shall gradually develop the common agricultural policy during the transitional period and shall establish it not later than at the end of that period."
> (Treaty of Rome, Article 40)

On December 15, 1964, the Council of Ministers of the European Economic Community (EEC) at France's urging, adopted a schedule of uniform grain prices. This schedule is to take effect on July 1, 1967 -- 2½ years ahead of the deadline implicit in the Treaty of Rome. This paper explains the setting for the adopted uniform grain prices and their potential impact on U.S. exports.

Comparison with past prices. Uniform prices, generally were set between the lowest and the highest national target prices in force in 1962, the year when target prices were first determined. The uniform non-durum or soft wheat price is lower than the midpoint between the 1962 French and German prices. 2/ However, the French wheat grower will no longer bear the burden of low-priced receipts from exports and denaturation and feed use. This burden will be assumed by the European Agricultural Guidance and Guarantee Fund. Thus, the French growers' price for wheat, produced in addition to the requirements for domestic human consumption, will increase more than the average price. Moreover, the uniform price of barley, the principal EEC-grown feed grain, is slightly higher than the midpoint between the 1962 French and German prices. Thus, feed-grain prices have been set relatively high. From the standpoint of the United States and of the EEC consumer, the feed-grain price is at a less favorable level than the soft wheat price.

Comparison with Mansholt Plan. Prices adopted are shown in the first two columns of table 1. The soft wheat, durum wheat, and rye prices are identical

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2/ The Dutch basic target price for soft wheat was considerably lower than the French one in 1962 ($91.99 vs. $97.18 per metric ton). The Netherlands, however, supply little more than half a million tons, or about 2 percent of EEC wheat production.

Table 1.--Common Market uniform basic target prices for grains, effective 1967-68, with comparisons

Type of grain	Adopted uniform basic target prices effective July 1, 1967		Mansholt proposal (November 1963)	July 1964 basic target prices						July 1, 1964 c.i.f. price Netherlands 1/
				France	Netherlands	Belgium	Italy	Luxembourg	Germany	
	dol/bu	dol/mt	dol/mt	dol/mt	dol/mt	dol/mt	dol/mt	dol/mt	dol/mt	dol/mt
Soft wheat...	2.89	106.25	106.25	100.22	104.83	104.60	113.60	117.00	118.88	61.75
Durum wheat..	3.40	125.00	125.00	117.26	---	---	143.20	---	---	75.50
Rye.....	2.38	93.75	93.75	81.79	74.59	83.60	---	108.00	108.12	57.75
Barley.....	1.99	91.25	92.50	83.00	82.32	89.00	72.22	89.00	103.00	54.10
Corn 2/.....	2.30	90.625	93.75	89.93	---	---	69.12	---	---	59.70
				Percent						
Soft wheat...		100.0	100.0	94.3	98.7	98.4	106.9	110.1	111.9	58.1
Durum wheat..		100.0	100.0	93.8	---	---	114.6	---	---	60.4
Rye.....		100.0	100.0	87.2	79.6	89.2	---	115.2	115.3	61.6
Barley.....		100.0	101.4	91.0	90.2	97.5	79.1	97.5	112.9	59.3
Corn 2/.....		100.0	103.4	99.2	---	---	76.3	---	---	65.9

1/ C.I.F. price for standard grades, as determined by the EEC Commission. 2/ October prices.
Sources: Adopted prices from EEC Press Release, December 15, 1964; c.i.f. prices from Official Journal of the European Communities, Agricultural Supplement, July 8, 1964; other prices from sources shown in text footnote 3.

with the "Mansholt Plan" proposed in November 1963. 3/ When first proposed, the $106.25-per-metric-ton price for soft wheat and the entire price structure based upon it seemed unacceptable to the Germans, an impression which persisted until the adopted price schedule was released in December 1964.

Under the Mansholt proposal, the barley price was $1.250, or 1.4 percent higher, and the corn price was $3.125, or 3.4 percent higher than in the adopted schedule. These changes, though minor, are improvements to many interested in world trade.

Meaning of basic target prices. Prices shown in table 1 are basic target prices. These apply to the wholesale purchasing stage in the marketing process which constitutes grain delivered to the warehouse in Duisburg, but not unloaded. Located at the confluence of the Ruhr and the Rhine, Duisburg is the center of the area with the largest grain deficit in the EEC. Prices received by farmers tend to be lower than the target prices by the amount of transportation and other marketing costs to Duisburg. Target prices tend to advance with the marketing season and derived target prices tend to decline with distance from the principal deficit area. The lowest derived target prices established in Germany for July 1964, for instance, apply to Simbach on the Inn River at the Austrian frontier, north of Salzburg; they are $8.125 per metric ton lower than the basic target prices for all grains. This location differential seems to reflect freight costs substantially but not entirely. 4/

Support (intervention) prices presently set by the Governments of member countries more directly influence farm prices than do target prices. Support prices generally range from 90 to 95 percent of the target prices. Derived support (intervention) prices at Simbach are another $3 to $4 below applicable derived target prices and amount to $106.625 for soft wheat, $96.625 for rye, and $91.875 for barley.

As a result of former government programs, grain prices in the 3 large EEC countries exhibited less regional variation than they would exhibit in a free economy in which prices in a deficit area exceed those in the surplus or supply area by the amount of transportation costs. At the present time, the price structure is in transition to a fully integrated EEC grain economy. This implies that the basic target prices which the Council has adopted will tend to exceed prices to be received by distant farmers by more than the past excess of central market prices over those received by distant farmers. This should be remembered when the impact of the future uniform grain price on the farmers in those EEC countries which now have higher prices is assessed.

3/ European Economic Community, Commission. Common Grain Price, November 1963; also: Communauté Economique Européene, Commission. Mesures en vue de l'établissement d'un niveau commun des prix des céréales, mimeograph VI/COM (63) 430 final, 20 November 1963 and Europaeische Wirtschaftsgemeinschaft, Kommission. Memorandum der Kommission an den Rat ueber Preise und Preispolitik fuer landwirtschaftliche Erzeugnisse in der EWG, mimeograph, VI/S/0207/64 endg. 3 February 1964 (also available in French).

4/ Toepfer, Alfred C., Die deutsche Getreidemarktordnung in der EWG, 1963-64, Hamburg, 1963; Mueller, C. and Schnieders, R. Regionale Probleme und Transportkosten innerhalb der Getreidewirtschaft der Europaeischen Wirtschaftsgemeinschaft. 38 Berichte ueber Landwirtschaft (3): 567, 574. 1960; and C.E.E. Informations, Marchés Agricoles, Prix, No. 16, September 25, 1964.

From the U.S. exporter's or the EEC importer's standpoint, the basic target price must be related to the threshold price, the minuend from which the c.i.f. price is subtracted to determine the variable import levy. Under the Mansholt proposal, the threshold price was $1.25 per metric ton less than the basic target price, uniformly for all grains. Thus, the threshold price amounts to almost 99 percent of the basic target price. The variation is so small because freight charges from Duisburg to the port of Rotterdam are low because of the short distance and low rates applicable to waterborne traffic.

Thus, with world prices at recent levels, the variable levy for standard non-durum wheat will be around $43 per metric ton (threshold price of $105.00, minus c.i.f. price of $61.75; see table 1). Similarly, the variable levy on corn will be around $30. Thus, the levy will be about 50 percent of the c.i.f. value of the corn to be imported, and still more for wheat.

Price schedule fixed in dollars. The adopted price schedule is expressed in "units of account," a theoretical currency in which 1 "unit of account" equals 1 U.S. dollar. This means that the schedule is immunized against the currency depreciation of any member country. Without this provision, a country could lower its price structure through currency devaluation.

Price modifications. Although the principles upon which the EEC "Common Agricultural Policy" is founded rule out price subsidy payments (in contrast to transitional income subsidization), the price schedule adopted by the Council introduces a "minimum price guaranteed to the grower" of $145.00 per metric ton for durum wheat. This price would continue the discretion granted to the EEC durum wheat-producing countries in 1962 to protect through subsidies the prices received by growers during the first 3 years of the levy system. 5/ This favored treatment of durum wheat growers implies little immediate likelihood that feed grains will be substituted for durum wheat. This might be considered beneficial to U.S. and other feed-grain suppliers.

The $90.625-per-metric-ton basic target price for corn is modified by a $77.00 minimum support (intervention) price; that amount equals the 1964-65 minimum support price for corn in France. That minimum is to apply to all marketing centers, if the quantities marketed by producers, during a normal harvest are less than 45 percent of EEC consumption. This condition was apparently met in 1962 but not in other recent years. The apparent reason for this relatively low single support (intervention) price is that it assures a supply of relatively low-priced corn in Italy. However, the condition under which that "single, derived intervention price" applies depends on so many interpretations that the actual significance of the provision is not clear.

A temporary modification of uniform corn and barley prices, important for the United States as an exporter, is the provision that Italy may discount the

5/ EEC Commission, Regulations and Decisions in the Field of Agriculture Adopted by the Council on 14 January 1962 and FAO, National Grain Policies, 1963, pp. 40f.

variable levy on seaborne imports of these feed grains from third countries. The following ceilings have been set for this levy discount:

Marketing year	Dollars per m.t.
1967-68	10.625
1968-69 - 1969-70	10.00
1970-71 - 1971-72	7.50

However, member countries, so that they may compete for this trade at seller prices in line with the newly adopted price structure, will be compensated by a like amount from the European Agricultural Guidance and Guarantee Fund if they export barley or corn to Italy. Moreover, barley and corn exports from Italy to other member countries are taxed to compensate for the special levy discounts to prevent any effect of the lower Italian feed-grain price level on the other EEC countries.

The support (intervention) price for barley in Italy is to take account of these levy discounts. This is an ambiguous provision which may imply price subsidies, as explained above in the case of durum wheat, or it may imply a low "derived intervention" price as conditionally provided for corn.

Malting barley may be supported by each member country at a special quality premium. Similarly, the support price of rye for human consumption may include a $2.50 per-metric-ton quality premium. These provisions are significant to Germany.

Why did Germany agree? Considering the magnitude of adjustment required and the strong German opposition to the Mansholt proposal, why did Germany ultimately agree to the uniform grain price schedule? German industry has a tremendous stake in the Common Market. Obviously, the German Government did not wish to jeopardize that advantage by any intransigeance. From the standpoint of German industry, agricultural concessions are not only a quid pro quo in the achievement of European economic integration but also an anti-inflationary factor that may help keep down the cost of living and thus strenghten Germany's competitive position in the export markets for industrial goods. However, the German desire to progress with EEC integration may have found further rationale in the agricultural economy itself: In 1962, a group of 8 well-known European agricultural economists reported that lower farm prices in Germany would tend to result in relatively minor adjustments in total national agricultural production, income, and income per worker. The principal adjustment would occur in the number of full-time workers engaged in agriculture. They projected a 1,050,000 decline in the number of farm workers -- from 2,600,000 in 1958-59 to 1,550,000 in 1975; but they pointed out that only a fraction of that decline -- 250,000 workers -- would occur because of lower farm prices. Most of the decline was attributed to economic growth in continuation of a trend that was evident between 1949 and 1960. During that period the farm labor force in the Federal Republic shrank by 2,210,000 or 39.1 percent of all permanent farm workers. 6/ By contrast, a higher price level might so stimulate French agriculture so that it would develop into a more serious competitive threat to the German farmer.

6/ European Economic Community. Studies. The Effect on Farm Incomes in Federal Germany of Lower Prices Within the Framework of the EEC's Common Agricultural Policy. Agricultural Series No. 11, Brussels, 1962.

German agricultural interests have considered as desirable price stability in Germany combined with a certain amount of inflation in the other EEC countries. Prior to formal price harmonization, this would tend to narrow the gap between the high level of grain prices in Germany and the lower levels elsewhere: If inflationary developments in the other countries were to lead to currency devaluation, however, the gap might become wider than ever. Thus, Germany was particularly interested in expressing the uniform prices in "units of account" and to protect itself against currency devaluation elsewhere. This meant that Germany, although sympathetic to a certain amount of inflation elsewhere, could not afford to be insensitive to the inflation problems of the other EEC countries. This probably was still another factor that induced Germany to agree to the recently adopted price schedule.

Effect of the uniform price on French agriculture. France is the largest grain producer among the EEC countries and has by far the largest production potential. Under these circumstances, the $106.25/m.t. basic target price for non-durum wheat is a powerful incentive to French wheat production. It is $6.03 higher than the French basic target price at the beginning of the present crop year, $9.07 higher than the original (July 1962) French basic target price, but $12.63 lower than the German basic target price which has remained unchanged. 7/

As crucial as the increase in the target price is the French wheat grower's prospective relief from bearing a portion of the burden of low-priced sales for export and for denaturation and feed use. Beginning with the 1967 crop, this burden will be borne by the European Agricultural Guidance and Guarantee Fund. Already since mid-1962, sales for human consumption to other EEC countries have been made at the full domestic price. Moreover, feed grains will be priced higher relative to wheat than formerly in all EEC countries other than Germany. Thus, wheat of low breadmaking quality may become a high quality feed grain marketable without the need for substantial denaturation payments from the Fund.

This all means a much larger price boost for French wheat produced in addition to the requirements for domestic human consumption than a comparison of past and future average prices reveals. In other words, for the French wheat economy, the marginal price increase will be larger than the average price increase.

The effect of these marginal price increases on average producer prices will also be substantial. The average producer price, freed from the impact of surplus-disposing sales for export and feed, will rise more than the target price. The deductions (to reflect low-priced sales) from the full price of wheat for domestic human consumption along with other assessments presently charged to French producers, are large. For example, the preliminary 1964-65 rates total $12.92/m.t. for wheat growers selling up to 15 tons and $18.45 for larger wheat growers.

French feed grain growers will be relieved of similar burdens. Thus, the preliminary 1964-65 deductions and other assessments are $12.68 on barley and $5.47 on corn.

The French barley grower will also benefit from the amount by which the newly adopted uniform basic target price exceeds the July 1964 French target price -- $8.25/m.t. France has raised its basic target price for barley by 5.1 percent

7/ The quality standards to which the German target prices apply have been raised implying a 1.3-1.5 percent price reduction.

since 1962. The uniform price exceeds the original French basic target price by $12.28 and is $11.75 below the corresponding unchanged German price; see table 1. 8/ Compensatory payments, will ease the transition to a lower grain price level in Germany as explained in the next section.

European Agricultural Guidance and Guarantee Fund. This Fund, hereafter called FEOGA (using the initials of its French name) was set up in 1962 when the Common Agricultural Policy was initiated. With the achievement of the single market stage, revenue from the variable import levies will go to FEOGA which in turn will finance (a) payments on exports to third countries, (b) measures taken to regulate markets and (c) actions to increase agricultural productivity.

However, a special section of FEOGA will disburse the compensation granted to the 3 member countries with wheat prices above the adopted uniform price according to the following schedule:

	1967-68	1968-69	1969-70	Total
		-- Million dollars --		
Germany	140.00	93.50	46.75	280.25
Italy	65.00	44.00	22.00	131.00
Luxembourg	1.25	0.75	0.50	2.50
Total	206.25	138.25	69.25	413.75

As provided in the Treaty of Rome, these compensation payments are to be financed from contributions from member countries in the following proportions 9/:

France, Germany and Italy	28.0 percent each
Belgium and Netherlands	7.9 percent each
Luxembourg	0.2 percent

Conclusion. The uniform grain price schedule recently adopted by the EEC reveals flexibility on the part of the EEC countries. Compared with the Mansholt Plan, minor concessions in favor of international trade have been made with respect to the uniform prices for barley and corn, and significant concessions, also involving feed grains, have been made to Italy. The latter concessions, although limited in time, extend beyond 1970, the year complete price harmonization was originally scheduled to be effective. These concessions may help to mitigate the damaging effect of grain price unification to the export trade of the United States.

8/ Ibid.

9/ The EEC Council also resolved on December 15, 1964 (1) to reduce Italy's contribution to FEOGA to 18 and 22 percent in 1965-66 and 1966-67, respectively, and (2) to free Belgium from any obligation to share in the contributions of other member countries necessary to compensate for the Italian reduction. That resolution, however, has no direct connection with the uniform grain price. In this connection, it may also be noted that the German Chancellor has asked his parliament, the Bundestag, to appropriate $210 million in 1965 and $275 million in 1966 to finance an agricultural adjustment and assistance program to ease the transition to lower price levels.